FISCAL NOTE

Bill #:	HB534	**Title:**	Senior citizen tax credit for prescription drugs
Primary Sponsor:	Holly Raser	**Status:**	2nd Reading, Amended

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Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	**FY2003 Difference**
Expenditures:		
General Fund	$20,241	$0
Net Impact on General Fund Balance:	**$(20,241)**	**$0**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. This bill applies beginning January 1, 2003; there is no fiscal impact from HB534 in the 2003 biennium.
2. This bill provides a credit against individual income taxes for expenses incurred for insulin or prescription drugs or medicines, to the extent that these expenses are not compensated by insurance or other sources; i.e., only *bona fide* out-of-pocket expenses made by the taxpayer will qualify for the credit.
3. The credit may be claimed only by taxpayers age 65 or older.
4. Taxpayers are entitled to a credit of up to 50% of out-of-pocket expenditures for prescription drugs or medicines incurred during the tax year, but in no case may the credit exceed $200. This fiscal note assumes that the $200 limitation apples to each to married couple who files separately, but to both married couples who file jointly.
5. Single or head of household taxpayers may not claim the credit if Montana adjusted gross income exceeds $23,500 (the credit is phased out by $1 for each $5 of gross household income over $22,500); married couples may not claim the credit if their combined MAGI exceeds $36,000 (the credit is phased out by $1 for each $5 of gross household income over $36,000).
6. The credit is nonrefundable, and may not be carried forward or backward. Furthermore, any deduction for the cost of prescription drugs or medicines must be reduced by the amount of credit taken.

7. To provide funding for the credit, the bill provides that each year interest income attributable to $10 million of principal in the tobacco settlement trust fund must be used to offset general fund costs of the credit.
8. The Department of Revenue will incur additional administrative expense of $20,241 in fiscal year 2002 for programming and form changes to implement this bill.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Expenditures:		
Operating Expenses	$20,214	$0
Funding:		
General Fund (01)	$20,241	$0
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	$(20,241)	$0

LONG-RANGE IMPACTS:

1. Based on a computer analysis of the population of tax year 1999 full-year resident individual income tax returns, a total of 70,088 taxpayers and/or households would be eligible to receive and benefit from this credit.
2. The average out-of-pocket expenditure for prescription drugs and insulin for households with a taxpayer age 65 or older is $650. Taxpayers may claim a credit of up to 50% of the total out-of-pocket expenditure, but in households where married couples file separately the credit cannot exceed $400, and in all other households the credit cannot exceed $200.
3. The impact of this credit on the state general fund in future years will depend on utilization rates among the eligible population of taxpayers and households. Historically, new credit programs show an increasing pattern of usage and cost over time. Ultimately, some tax preferences display high utilization rates, while others display low utilization rates. The following table shows the annual cost of this program at varying rates of use among the eligible population. A utilization rate of 100% would reduce tax liabilities by $10.4 million annually.

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Utilization Rate	Annual Cost
10%	$1,040,000
20%	$2,080,000
30%	$3,120,000
40%	$4,160,000
50%	$5,200,000
60%	$6,240,000
70%	$7,280,000
80%	$8,320,000
90%	$9,360,000
100%	$10,400,000

4. The provision requiring that medical expense deductions be reduced by the amount of credit taken will have an immaterial impact on the net affect of this proposal.

TECHNICAL NOTES:

1. The bill provides for a maximum credit of $200, but is not clear as to how that is to apply in the case of married couples. Are married couples who file separate tax returns each allowed a $200 credit while married couples who file jointly are allowed a single credit of $200? Or are married couples who file jointly allowed a possible credit of $400 as well? Does the income limitation of $36,000 for married couples who file separately apply to each individual taxpayer, or does it apply as a "household" income limit?